



CHEMONICS INTERNATIONAL INC.

**COMPETITIVENESS ASSESSMENT
OF THE SANTIAGO REGION**

By Kevin X. Murphy, J.E. Austin Associates, Inc.

Legal and Institutional Reform IQC

Contract No. PCE-I-00-97-00039-00

Task Order No. OUT-PCE-I-801-97-00039-00

Submitted to:
USAID/Santo Domingo

Submitted by:
Chemonics International Inc.

In Association with:
J.E. Austin Associates, Inc.

May 22, 2000

TABLE OF CONTENTS

Acronyms	i
SECTION I	1
I. Cluster Level Competitiveness	1
A. Premium Cigars and Tobacco Cluster	1
B. Free Trade Zone and Textile-Garment Cluster	2
C. Health Services Cluster	4
D. Tourism Cluster	5
E. Construction and Commercial Clusters	5
II. Economic Infrastructure	6
A. Education Training and Human Resources	7
B. Financial Infrastructure	7
C. Transport Infrastructure	8
D. Policy and Institutional Reform	8
III. Social Capital: Santiago and the Leadership Challenge	9
A. The Legacy of Leadership in Santiago	9
B. Loss of Leadership	10
C. The Futility of Strategy in the Absence of “Social Capital”: Recommendations	10
Exhibit 1	Principal Competitiveness Challenges for Key Clusters in the Santiago Region 12
Exhibit 2	Ten Leading Initiatives for Building Economic Infrastructure 13
Exhibit 3	The Leadership Legacy of Santiago Notable Initiatives of the Association for Development 14
Exhibit 4	Potential Informal Advisory Group, Potential Institutional and Formal Advisory Groups 15

ACRONYMS

AIREN	Asociación de Industrias de la Región Norte
APEDI	Asociación para el Desarrollo, Inc.
BHD	Banco Hipotecario Dominicano
CBI	Caribbean Basin Initiative
CENDA	Centro de Desarrollo Agropecuario, Zona Norte
CIMPA	Centro de Investigacion y Mejoramiento de la Produccion Animal
CORAASAN	Corporacion del Acueducto y Alcantarillado de Santiago
DR	Dominican Republic
FONDESA	Fondo para el Desarrollo, Inc.
IDSS	Instituto Dominicano de Seguros
INFOTEP	Instituto Nacional de Formación Técnico Profesional
ISA	Instituto Superior de Agricultura
IT	Information Technology
Kwh	Kilowatt-hours
NAFTA	North American Free Trade Agreement
PROSEDOCA	Productora de Semillas Dominicanas, C. por A.
PUCCM	Pontificia Universidad Católica Madre y Maestra
SWOT	Strengths, Weaknesses, Opportunities and Threats
USAID	U.S. Agency for International Development
UTESA	Universidad Tecnológica de Santiago
WTO	World Trade Organization

SECTION I

Competitiveness Assessment of the Santiago Region

SECTION I

Competitiveness Assessment of the Santiago Region

The objective of this document is to present the major findings from the Santiago Regional Competitiveness assessment exercise, sponsored by the Association for Development, Inc. (APEDI), financed by USAID and receiving technical assistance from Chemonics, Inc., J.E. Austin Associates, Inc., Monitor Company and the Competitiveness and Development Foundation. This document presents findings related to industry clusters (Exhibit 1) and regional economic infrastructure (Exhibit 2). Although Santiago once contributed to competitiveness initiatives of national importance (documented in Exhibit 3), its leadership is more fragmented today than in the past. Building competitiveness will require not only a good strategy but also careful attention to process. Therefore, a careful process of consultation is recommended among key leaders (Exhibit 4). The commitment of the *Caballeros (y Damas)* of Santiago will be the critical determinant of future competitiveness.

I. Cluster Level Competitiveness (Exhibit 1)

A. Premium Cigars And Tobacco Cluster

Santiago is home to the Dominican Republic's only competitiveness champion. The country enjoys the number one position in world market share in hand-made premium cigars.¹ In recent years it has recorded gross exports of up to US\$200 million, although there is a high import content. It has contributed to the success of free trade zones and benefited from them. The industry, together with cigarette manufacturing and raw tobacco export industries, is a key employer. After an unprecedented boom in the mid-1990s, the industry suffered a downturn as demand leveled off and prices declined.

The industry self-assessment, using gap analysis, SWOT and competitive diamonds, revealed surprising weaknesses. The DR is almost entirely dependent on the Cuban embargo-protected US market. It has not made great inroads in Europe where it competes with Cuba, which still enjoys a global image as the producer of the highest quality cigars in the world, despite good results for the DR in blind taste tests. Cuba also exercises more control than the DR over distribution channels. Mergers and acquisitions are putting US companies and brands into the hands of European firms with vested interests in the Cuban brands. With a few notable exceptions,² the industry serves as the back-office production site for international brands such as Davidoff and others.

¹ Some cigars are made in the free zone of La Romana and elsewhere, but the bulk of the tobacco and cigar production takes place in the Santiago province and surrounding areas.

² E. Leon Jimenez, with a long and illustrious tradition dating back more than a century, is a prominent example of a company building its brand name and distribution network in the US.

Domestically, the industry is highly dependent on the import of “capa” – the wrapper that is the most expensive part of the cigar and which itself is made out of very specialized and carefully processed tobacco leaf. Cuba produces its own wrapper while the DR imports nearly all the wrapper it uses from sources like Cameroon and Connecticut. General Cigar, which began trials for wrapper tobacco in 1979 (with the support of leaders like then Minister of Agriculture, Hipolito Mejia), have not proven successful. The country spends US\$60 million per year importing wrapper. New bio-technologies are emerging which could help in the process of research, development and adaptation. Opinions differ on whether wrapper can be successfully developed in the Cibao, but the payoff to the industry and the country would be quite high if this were to happen.

Another opportunity is to promote investment in the export of machine-rolled cigars. Although this is a different business than that in which most cigar manufacturers currently engage, there are economic and technological reasons that may justify the movement offshore of this industry from the US to the DR.

The industry is still dependent on relatively low-wage labor and will need to invest in research, development, machine operation and maintenance, technology adaptation, investment promotion and market development if it is to compete in the future with Cuba, which has made a strong investment in research and training to support its cigar industry.

The social capital of the industry appears to be quite good. The principle exporters have demonstrated the ability to work together through Procigar, the national industry association, to undertake a number of practical initiatives to date, including the development of the “Cigar Country” brand and the promotion of the Dominican image globally. They have been less successfully at getting government authorities to protect intellectual property as cheap imitations made in Puerto Plata are sold to tourists and damage the DR's image as a quality producer of cigars.

B. Free Trade Zone and Textile-Garment Cluster

Most of the garment exports of the country originate in the northern part of the country and Santiago is home to many leading companies. Built on the private investment model and promoted by APEDI under the leadership of Don Victor Espaillat, the Santiago Free Trade Zone Corporation is one of the country's biggest success stories. It has earned major revenues that are now being re-invested in the regional airport. Other free zones have developed in the region. This is a key driver of the economy, exports and employment.

However, the garment export sector is highly dependent on the US quota regime, which is set to expire in 2005 as the Multi-Fibre Agreement is phased out under the WTO mandate to convert quotas to tariffs per specified time horizons. The vulnerability of the industry is evidenced by three years of declining growth, which turned negative last year in the face of continued

competition from Mexico (favored by NAFTA) and from countries not affected by quota ceilings, such as Honduras.³

It is expected that, after quotas expire, much of the industry will shift to “low-cost Asia”—places like China, India and Pakistan, where low-cost labor and high volume will attract a cluster of related and supporting industries. Competitiveness will depend on quality, service, flexibility, turnaround time, responsiveness and dependability as well as the ability to offer “full package” rather than just cutting, sewing and assembly. Leading companies in the DR and Honduras are even now developing computer-aided design capability to offer a wider range of services to their clients.

To be competitive in the future, firms will need to move from assembly to full package service-delivery. However, this transition will not be easy. The evolution will require much higher levels of risk and working capital. It will also require managing more complex operations, coordination of supplies, direct acquisition and ownership of materials and bearing risk for industry “charge backs.” Many companies will fail to make the transition.

Another key factor to future competitiveness will be the ability to attract a critical mass of international investors in specialized areas such as yarn, cloth, finishing, dyeing, buttons, labels, hangers, plastic and other inputs. This will require a targeted investment promotion program. Yet the Santiago region is less attractive to international executives than some other locations, as it lacks a world class bilingual school, five-star hotels and good recreational facilities.⁴

As a more recently emerging cluster, the free-zone leadership has not yet come together as closely as might be needed to address the impending challenges. The industry has cooperated to lobby before the US Congress and interfaces with INFOTEP⁵ on workforce development issues. The industry finds that educational and training providers, in general, are not responding to the rapidly evolving needs for middle management, supervisors, technical staff and computer-proficient professionals.

Beyond garments, the free zones have important industries related to cigars and leather products. Both have strong backward linkages. Local tanneries, for example, provide important leather inputs. But the region does not yet have a service-export firm or a knowledge park. The only firm exporting services is that of Codetel, the telephone company. PUCCM is proposing to build a knowledge park at a free zone site to be located on land next to the newly approved international airport. It is unfortunate that graduates of the PUCCM “Telematics” concentration have to leave Santiago to find good jobs. Many regions less developed than Santiago (even in Africa) have already begun to develop an export-of-service industry. If this offers a “next generation” solution to free zones in the region, it would require a private investment model that

³ Immediately after this report was written, the CBI enhancement, which provides parity with NAFTA for certain categories of garments, was approved by the US Congress. CBI will provide a window of opportunity to achieve competitiveness prior to the expiration of quotas.

⁴ San Pedro Sula, Honduras, a city of similar size to Santiago in a country with lower per-capita income, has a closer airport, better clubs, better restaurants and first-class hotels such as the Intercontinental.

⁵ Funded by a 1% payroll tax, INFOTEP is a government-related agency charged with providing vocational training services relevant to the needs of the private sector. Evaluations are mixed on its effectiveness but services are being actively used by the free-zone cluster.

has proven superior to government-led models. Just as Santiago's free trade zones are more successful than San Pedro (DR), a Santiago knowledge park using a private model could be more successful than the government-led "Parque Cibernético" of the capital.

C. Health Services Cluster

Santiago's health indicators are above average for the country. The region has boasted a number of excellent and even world-recognized doctors and researchers over the years such as cancer researcher Dr. Sergio Bencosme. Building on the experience of a cluster of successful private-sector clinics and medical groups (Clínica Corominas, Centro Médico Cibao, Materno-Infantil, Santiago Apostol and the dynamic La Unión Médica), there is now a project to develop the "Hospital Metropolitano" on the highway to Santo Domingo just outside of Santiago. A high-quality hotel would be located near the site as well. This project will seek to serve local people, to offer services to people who currently leave the country for medical attention, to Dominicans living abroad and to others in the Caribbean region.

The diagnostic quality of doctors in the DR is regarded as being very good. The quality of nursing and the reliability of electricity are more worrisome. By investing in staff, infrastructure and medical equipment, those involved in the project hope to offer international-quality service for certain operations and treatments at a competitive cost.

The presence of such a hospital and hotel will increase the overall attractiveness of the region and have important developmental implications. Eventually, the availability of adequate medical care can also attract a retirement community. At the moment, residents who can afford to do so often go offshore for regular medical checkups and for major operations.⁶ There is thus a local market and it is likely to grow.

In terms of social capital, the medical community has exercised important civic leadership in the past through the contributions of people like Dr. Salomon Jorge, Dr. Franz Josef Thomen and Dr. Juan Jose Battle. The cluster will have an important role to play in the future of Santiago.

In terms of competitiveness, the cluster lacks a strong local network of suppliers of key services and technologies. It has also not traditionally targeted the most sophisticated and demanding consumers nor has it offered a full array of services. However, medical schools in the country are better than average and have consistently attracted international medical students. The project offers important possibilities even while presenting challenges for upgrading the industry. The emergence of a competitive health care industry would be greatly assisted if employers and employees were able to devote the current 10% payroll tax to private insurance programs rather than on the government IDSS program. IDSS goes virtually unused by those paying for it because the quality is notoriously bad.

⁶ Two of Santiago's top 10 leaders were traveling abroad for this purpose during the week this summary was being written.

D. Tourism Cluster

Santiago has been an important “back office” contributor to regional tourism but is not a major attraction despite its monuments, mountains and tobacco factories. However, there are important opportunities in business tourism, ecotourism, health tourism and conference-related tourism that could be developed. These, in turn, would add to the attractiveness of the region and provide support to the national tourism cluster.

Of the 734 hotel rooms in Santiago, only 121 are of minimally acceptable international quality. Compared to cities of similar size in Latin America with similar industrial platforms, the hotels in Santiago are of inferior quality. San Pedro Sula, a town of similar size and industrial development in Honduras, has several first-rate hotels such as the Intercontinental.

The availability of quality hotels will play a supporting role in the investment promotion strategies of the cigar and garment clusters. Indeed, there are several projects underway to expand capacity and to build new hotels. There is also a growing segment of returning Dominican resident in the US who would stay in a bed-and-breakfast or Apart-hotels. Santiago can also take advantage of the large presence of tourists one hour away in Puerto Plata. The ecological attractions of the central mountain range include not only the highest mountain peak in the Caribbean and horseback riding in “the Dominican Alps,” but also a wide range of flora and fauna.

There are possibilities of strengthening the inter-cluster linkages that connect Santiago to the tourism economy. There are already strong links with Santiago’s construction and food industry and these can be further strengthened. Important tourism-education linkages also exist. For example, PUCCM founded the tourism school in Puerto Plata. Santiago could play a greater role as a supplier of IT, hospitality and management talent to the industry.

The development of first-class hotel, restaurant, recreational, cultural and entertainment offerings would also help attract international investment and talent, all of which will be critical to the success of the strategies proposed for the tobacco, free zone and garment clusters.

E. Construction and Commercial Clusters

A major construction cluster has built up in the Santiago area, and includes engineering firms, construction companies, building-supply commercial centers, furniture manufacturers, ceramics producers and a host of related industries. The regional impact of this cluster is similar in nature to the commercial cluster. Santiago serves as a regional hub that extends to Haiti and even beyond to neighboring islands.

The important construction cluster developed to serve several major markets. One was the large construction and public housing projects that were a hallmark of the Balaguer years. Another market has been the growing private demand for commercial building and residential housing to accommodate growth. A third has been from the coastal investment in hotels and related

infrastructure fueled in large part by European investment. A fourth market is in the regional Caribbean area, neighboring islands and Haiti, where construction clusters are less developed and Santiago serves as a supplier of materials and services.

The construction cluster may be seen, in part, as a foreign exchange generator. Much of recent tourism construction has been financed by European investment and much of the demand for private housing is fueled by remittances from Dominicans in the US.

The cluster is beginning to feel the effects of globalization as new technologies are introduced from abroad and new strategic alliances are formed between domestic and international companies. Advances in materials, technologies and construction methods offer to reduce the cost of low-income housing substantially. The cluster needs to monitor these trends and to aggressively adopt and adapt them to stay competitive.

Improvement will also require close coordination with the financial sector to develop creative mechanisms for financing in an environment characterized by scarcity of long-term finance at reasonable rates. Strong linkages between the construction industry and financial groups like the Asociación Cibao, BHD Group and others have always existed, and continued financial engineering will be required to create effective demand.

There is also a need to invest in human resources for a continued supply of excellent architects, engineers, managers, supervisors and other professionals with good technical skills such as electricians and plumbers.

The industry cluster needs to cooperate to develop markets beyond the Santiago area, to export engineering and architectural services (directly and virtually via the Internet), to adapt new technologies, materials and methods, and to develop initiatives for industry workforce training and development. The industry will need to work closely with its education and training providers to respond to current challenges. However, the cluster itself, on the surface, does not seem to have mechanisms of coordination although one supposes that informal dialogue and coordination take place behind the scenes.

II. Economic Infrastructure

During diagnostic sessions, the following were frequently-cited weaknesses regarding economic infrastructure in Santiago:

1. Weak basic services (energy, water, trash collection, sewage)
2. Deficient basic school system
3. University-level education that is declining in quality and not staying relevant
4. Deficient transport infrastructure
5. Lack of orderly growth, zoning and planning
6. Lack of protection for intellectual property
7. Outdated and ineffective labor and benefits legislation
8. Taxes that do not produce benefits (e.g., IDSS at 10% of payroll)
9. Legal and judicial security for investment (including land titling problems)

A. Education, Training and Human Resources

The greatest current weakness in the economic platform for Santiago's competitiveness is its deficient school system. *Santiago en Cifras* has documented that the province is well below the national average in terms of the percentage of people attending school. The quality of public schools is particularly bad. At one public school in Santiago visited by this consultant, there were three shifts because of space constraints. However, the third shift, which met at night, met only sporadically as electrical service was often out after dark. The teachers, who are often on strike, might well be saying through their actions, "they pretend to pay us and we pretend to teach." One free-zone executive noted that one reason it is hard to get international executives to come to Santiago is that there is no bilingual school with excellent international standards.⁷ Despite Santiago's pride in PUCCM and other educational centers of higher learning, the private-sector clusters spoke repeatedly of a decline in the quality of tertiary education and the lack of relevance of these institutions in responding to the practical needs of evolving industries.

There are no major training-needs assessments done either by industry or the educational community on a regular basis.⁸ The major industry clusters have also not presented regular job forecasts or detailed articulations of job categories and the specific skill requirements needed. Linkages are still weak between the industries and their training providers and could be reinforced. The Dominican Government imposes a 1% payroll tax, which is provided to INFOTEP to provide relevant vocational training. The free-zone companies are using available training courses and interact with INFOTEP. However, the preference today is to either abolish such taxes or transform the role of INFOTEP into a coordinating and normative body that qualifies training providers and administers funds. This would allow for a competing body of private-sector training providers to emerge in a demand-driven fashion and makes more efficient use of resources. The trend is towards outcomes-based investment in skills development and is evident in places as diverse as El Salvador and South Africa.⁹

B. Financial Infrastructure

The statistical work done by the team in *Santiago en Cifras* revealed that while Santiago has 9.8% of the national population, it receives only 7.4% of the central government investment. The National District, by contrast, receives 49.3% of the central government investment with only 31.4% of the national population. A trend towards decentralization of financial tax and spending could help address this situation.

The study also revealed the net export of private financial resources out of the region. The province provides 11.3% of savings to the national commercial banking system, which in turn

⁷ There is a good all-English school run by missionaries and several good Spanish-language schools.

⁸ An excellent needs assessment done in the early 1990s by ISA found declining demand for general agronomic engineers yet an increasing demand for farm-level managers, agribusiness managers and deeper expertise in a variety of key technical areas. Training needs assessments for free zones had been part of USAID's assistance in the 1980s.

⁹ El Salvador reformed its INFOTEP-type system. South Africa is instituting a 1% training tax on payrolls as of April 2000, but the private sector can apply to receive 80% of its contribution back if it uses qualified training providers or invests in its own workforce development according to certain specific norms.

only invests 6.2% of its loans in the province. This situation can be addressed by both the private sector (more bankable projects, good ideas and capable entrepreneurs) and by the public sector (building economic and physical infrastructure that facilitates this private investment). The high cost of domestic finance was also cited in several industry clusters, a national-level problem beyond the scope of the regional effort. The savings-and-loan sector in Santiago, however, is relatively strong.

C. Transport Infrastructure

The widening of the highway to the capital has reduced travel time between Santiago and Santo Domingo and is a welcome recent improvement. The major trunk highway to Puerto Plata is in poor shape and a project to widen and repair it is underway. This road will not be finished prior to the presidential elections and there is some question as to whether the next government will finish the project of a former government with the same zeal unless there is substantial pressure from regional leaders.

There is a need for larger port facilities in Puerto Plata. The underdeveloped Manzanillo area, near Monte Christi, appears to have better natural port conditions for larger ships than does Puerto Plata, but will require related infrastructure. The recently approved airport has already begun its construction of the tarmac and the consultant was able to view substantial progress. Although initially controversial, it promises to increase the dynamism of at least four towns: Santiago, La Vega, Lycee and Moca. Land values in the vicinity have already increased. There are initial plans for PUCCM to sponsor a knowledge park on land that it owns adjoining the airport.

The completion of the beltway artery to the south and east of the city has been important to economic growth. However, it needs to be completed in the northern arc of the city. There must also be better planning and zoning for economic development. Traffic patterns and renewal of the city street system is also needed, especially in light of a 48% jump in car registry in two years, as documented by *Santiago en Cifras*. This has also contributed to noise pollution as drivers continue to use their horns for self-expression and purposes other than indication of imminent danger.¹⁰

D. Policy and Institutional Reform

It is beyond the scope of a regional competitiveness initiative to deal with national policy and related institutions. However, it is important to note that fiscal and governance decentralization will be a boon to Santiago if well managed by provincial and local authorities. Competitiveness of the garment sectors (and most others) is negatively affected by the energy situation, which is more expensive and less reliable than in competing countries. For example, one free zone in Honduras depends entirely on the national energy grid. Costs of electricity in many countries average 8 cents per Kwh., much lower than in the DR.

¹⁰ About 40 years ago Paris had a similar problem and passed and enforced laws prohibiting the honking of horns except in cases of imminent danger. Paris became notably quieter.

The social security payroll tax of 10% (7.5% of which is paid by employers) provides little, if any, benefit. Most funds go to the IDSS system for services people normally do not use because of notoriously poor quality. Giving employers the option to buy into a private insurance scheme would provide better employee benefits, contribute to national health objectives and help boost the emergence of a more competitive health care industry.

At a more controllable level, the private sector could make a notable contribution to the seeming inability of municipal authorities to collect trash, control noise and organize traffic patterns.

Ten leading initiatives have been presented for the future of Santiago. These cross-cutting initiatives would have a major impact and should now be vetted to the leadership. They are presented in Exhibit 2.

III. Social Capital: Santiago and the Leadership Challenge

Even the most compelling and eloquent competitiveness strategy will be of no value to Santiago without action. Diagnosis is of no use in the absence of implementation. The purpose of this exercise is not to produce a study that sits on a shelf. What is needed is consensus on priorities, shared vision and concerted action.

A. The Legacy of Leadership in Santiago

Santiago has a tradition of leadership. Some “30 Caballeros” were said to have founded the city of Santiago. Four centuries later, a dozen or so *caballeros* came together to fill the void left by decades of dictatorship. For over a generation after the death of Trujillo, the business leadership of Santiago made major contributions to economic growth and civil society at the regional and national level. It was a leadership that presented to the world a relatively united front. Under the leadership of Don Victor Espaillat, these leaders came together under the umbrella of the Association for Development (APEDI). Each agreed to take responsibility for a major project, supporting each other in their endeavors.

Out of this Santiago leadership group came many important initiatives. Don Alejandro Grullon formed the nation’s first private commercial bank. Don Tomas Pastoriza formed the country’s first private development bank. Don Luis Crouch created one of the country’s leading agricultural schools (ISA), introduced important new crops to the Dominican economy and helped launch the country’s most important ecological initiative, Plan Sierra. Monsenor Agrippino Nunez Collado created the PUCCM University. Don Victor Espaillat, supported by local leadership, created the successful Santaigo Free Trade Zone Corporation, which is now helping to finance the new airport. Don Arturo Grullon has led the Asociación Cibao, the Savings and Loan Association that has remained an important financial institution in Santiago. For years, new initiatives continued to be launched, such as the micro-finance group Fondesa. The success of the association inspired business leadership in other municipalities to form similar organizations, giving a strong impulse to civil society organizations in the country. A selected list of the successes of APEDI in launching important regional and national projects appears in Exhibit 3.

B. Loss of Leadership

The leadership of Santiago in 2000 is less unified, illustrated by the divisions over the project to create a regional airport at its current site. APEDI no longer plays the kind of role it once played and yet nothing quite like it has taken its place.¹¹ There are several reasons for this. First, many key business leaders have left for Santo Domingo. The policy emphasis favoring industrial development in the capital and the very success of Santiago's leaders meant that people such as Alejandro Grullon, Luis Crouch and Tomas Pastoriza moved to Santo Domingo.¹² Even PUCCM shifted its emphasis to the capital.

Second, APEDI never developed a financial endowment of a size commensurate with its achievements. It still lacks an endowment of financial resources that would allow it to pay competitive salaries and invest in information technology.¹³ One of the long-time leaders of APEDI, Don Jose Augusto Vega Imbert, noted that if APEDI had only a 1% equity ownership of all the companies and organizations it helped to create, it would now be a well-funded organization.

Third, economic growth and diversity in Santiago have given rise to multiple economic leadership groups. Carlos Sully Fondeur, one of Santiago's leaders who has inherited Don Victor's role at the Free Trade Zone Corporation, noted that the economy had become so diversified that one now had to speak of "leaderships" in the plural sense. He believes development can no longer be led by one strong individual as in the days of Don Victor, but that the multiple leaders should attempt to be mutually supportive of their respective initiatives.

Fragmentation of leadership in Santiago has even taken place within prominent families, coinciding with loss of market share by one of Santiago's historic rum companies. The older economic leadership has been slow to encourage the new economic leadership to join its social and economic circle. A famous Dominican writer once noted "of all the provinces, Santiago is the most provincial." Formal mechanisms of city and regional planning have been slow to develop. The newer economic groups have been slow to form their own organizational mechanisms of exercising municipal leadership.

C. The Futility of Strategy in the Absence of "Social Capital": Recommendations

A competitiveness strategy and a strategic plan for Santiago are relatively easy to develop. However, they will be useless without unified leadership, action and results. Therefore, it is important to pay attention to process. Strategy is futile without cooperation for effective action. Several steps were taken to promote this.

¹¹ The Santiago free-trade zone has the resources but is focusing these on the airport. The Santiago Strategic Plan has the institutional support of leading associations but has not coordinated as closely or received strong backing from the traditional economic decision maker.

¹² The flight of talented business leaders should not be overemphasized. Families associated with important businesses such as E. Leon Jimenez, Alvarez, Mera Munoz and Fondeur, Hache, and Bermudez retain an important presence in Santiago, contributing to its development in agroindustry, textiles, commerce and construction.

¹³ For example, APEDI has inadequate virus protection and dated software applications on its computers.

Noticing the decline in unity of leadership in Santiago, the consultant commissioned a “leadership map” of Santiago. APEDI also developed its own list of the top 30 leaders of Santiago and their current level of involvement in and commitment to the competitiveness initiative. The major result of this exercise was identifying both the informal (often invisible) as well as the formal and visible leadership structures of the city. Both need to be closely involved. The former have economic and political influence and drive the important changes such as the airport, the beltway and other important projects. The latter represent the fragile but important civil society mechanisms for institutionalizing change. The two do not always cooperate closely.

The consultant then met for individual consultations with most of the top 10 informal leaders of Santiago who represent the center of gravity of economic decisions. Many of those in the informal leadership structure had not yet been actively involved in either the competitiveness initiative or the strategic plan. Yet it is their involvement that will be critical to effective design and implementation.

The competitiveness process has generated and prioritized over 20 cluster-level initiatives and 10 cross-cutting regional initiatives. APEDI should now circulate these for individual and informal feedback and refinement with key advisors from the informal and formal leadership groups. Exhibit 4 presents suggested leaders.

The next step would be to convene a meeting, at an appropriate neutral venue, where the informal leaders can come together to ratify these priorities and take action. What is required is for a group of leaders to come together, each taking responsibility for a major initiative and each being supported by the others in the group and also supported by the broader civic and business associations. Informal consultations should precede formal meetings with consensus being built carefully. Venue is also important—it should be at a neutral place and convoked by someone whose leadership is respected by all. After this informal consultation, a formal session should take place to ratify decisions and delegate responsibility.

Santiago’s competitiveness initiative will require more than informed analysis and good presentations. It will require individual leaders taking personal responsibility for implementing specific initiatives as well as mutual support and institutionalized mechanisms of implementation. In the end, it will be the only thing that really matters. Santiago, once again, needs its “Caballeros”.

Exhibit 1

Principal Competitiveness Challenges for Key Clusters in the Santiago Region

1. Free Zone

- a. Low value-added → migrate to more attractive and profitable industries and ...
- b. ... Create Knowledge Park at the free-zone site by the new airport
- c. ... Conduct market and feasibility study for exporting services
- d. ... Promote investment from companies with higher-end focus

2. Garment and Textiles

- a. Access to market on favorable terms → Coordinate with government for effective lobby now and as WTO transition proceeds
- b. End of quotas → Develop “full package” capabilities
- c. Add service dimensions such as design
- d. Promote foreign investment to attract a critical mass of related and supporting industries (cloth, accessories, dyeing, finishing, packaging)
- e. Challenge of quality and service → Program of training, workforce development and technology acquisition

3. Cigars

- a. Diversify products and markets to grow → Promote investment in machine-made cigars
- b. Achieve local production of “wrapper” → Promote investment
- c. Sales of cheap imitations → Protect and enforce intellectual property rights and brand names
- d. Image vs. Cuba → Continue and expand national “brand” promotion
- e. Quality → Training programs for workers and farmers and development of official quality standards (as in Cuba)

4. Construction

- a. Support regional infrastructure initiatives
- b. Cooperate in finding solutions (technological, financial and organizational) to popular housing demand
- c. Training for mid-level technical people
- d. Monitor and adapt international standards, technologies and processes to be regionally and internationally competitive

5. Health

- a. Broaden range of services and improve quality → Support “Hospital Metropolitano” project (regional development implications)

6. Tourism

- a. Promote investments in first-rate hotels
- b. Develop Tobacco, Coffee, Cocoa and Rum Museums

Exhibit 2

Ten Leading Initiatives for Building Economic Infrastructure

1. International Airport
2. Completion of the Beltway ("Circunvalación") to the North
3. Development of a Cargo Port at Manzanillo and Expansion of the Puerto Plata Port
4. Ecological Recovery of the Rio Yaque with Treatment Plans and Monitoring Systems
5. Investment in Water and Sewage Infrastructure
6. Effective and Efficient Trash Collection System
7. Education and HRM Development Initiatives
8. Support for Reforms of Labor Code, Social Security, Energy Sector and Intellectual Property Rights
9. Urban Infrastructure Initiatives
 - Downtown renewal and traffic pattern realignment, tunnel, historical center, municipal parks, etc.
 - Park system (Ecological Park "Cumbre", Barranquita, Archeological Park Jacagua, Central Park at site of current municipal airport)
10. System of Land Titling, Registry and Information

Exhibit 3

The Leadership Legacy of Santiago

Notable Initiatives of the Association for Development

1. First Dominican private commercial bank: Banco Popular Dominicano
2. First private development bank: Banco de Desarrollo Dominicano, S.A.
3. Key regional financial institution: Asociación Cibao de Ahorros y Préstamos
4. Savings and Loan: Asociación La Previsora de Ahorros y Préstamos
5. Pioneering companies in manufacturing: Envases Antillanos, C. por A.
6. Pioneering companies in agroenterprise: Productora de Semillas Dominicanas, C. por A. (PROSEDOCA)
7. Leading university: Pontificia Universidad Católica Madre y Maestra
8. Leading agricultural school: Instituto Superior de Agricultura
9. Livestock research: Centro de Investigación y Mejoramiento de la Producción Animal (CIMPA)
10. Agricultural research: Centro de Desarrollo Agropecuario, Zona Norte, CENDA
11. Municipal infrastructure: Corporación del Acueducto y Alcantarillado de Santiago (CORAASAN)
12. The country's leading ecological project: Plan Sierra
13. A major micro-enterprise initiative: Fondo para el Desarrollo, Inc. (FONDESA)
14. Civil society: Consejo de Ordenamiento
15. Arts and Culture: Instituto de Cultura y Arte
16. Santiago Free Trade Zone: Corporación Zona Franca Industrial de Santiago, Inc.
17. International Airport project: Corporación del Aeropuerto Cibao, Inc.

Exhibit 4

Potential Informal Advisory Group¹⁴

1. Monsenor Agrippino Nunez Collado
2. Carlos Sully Fondeur
3. Angel Rosario
4. Manuel Jose Cabral
5. Felix Garcia
6. Fernando Capellan
7. Jose Augusto Vega Imbert
8. Arturo Grullon
9. Manuel Arsenio Urena
10. Dr. Juan Jose Batlle

Potential Institutional and Formal Advisory Groups

1. Plan Estratégico de Santiago (Mickey Lama)
2. Chamber of Commerce (Juan Alfonso Mera)
3. ACIS (Ing. Manuel Estrella)
4. AIREN (Alberto Yunen)
5. APEDI (Manuel Jose Cabral)
6. Governor, Province of Santiago
7. Mayor, City of Santiago

¹⁴ Other key leaders by sector have been included in the competitiveness cluster analyses. The above list is meant to ensure that key leaders are included. There are a number of other leaders, such as Franz Josef Thomen, whose advice and support will be important at the overall level or at the sector level. For example:

Tobacco: Hendrik Kelner, Abel Waschman, Alvaro Quesada

Garments: Jose Clase, Carlos Manuel Alvarez

Leather: Aquiles Bermudez

Commerce: Fernando Galan, Mauricio Hache, Marino Ochoa

Health: Dr. Sanchez Espanol

Education: Inmaculada Adames, PUCCM; Priamo Rodriguez, UTESA; Benito Fereiras, ISA; Director, Blas Santos, Kellogg Foundation